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Indonesia

Sugar

Annual

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Report Highlights:

In MY 2008/09 Indonesia is estimated to produce 2 million tons of plantation white sugar, a slight increase from 1.95 million tons in previous MY. Imports of refined sugar are forecast to remain stable at 1 million tons while raw sugar imports are forecast to increase to 2.2 million tons due to the issuance of new licenses by the government for new sugar refineries and government policy to expand capacity utilization.

Includes PSD Changes: Yes

Includes Trade Matrix: No

Annual Report

Jakarta [ID1]

[ID]

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General Summary

Indonesia sugar is strictly regulated by the government. In MY 2008/09, it is expected that Indonesia will produce 2 million tons of plantation white sugar, a slight increase compared to 1.95 million tons in MY 07/08. MY 2008/09 imports of plantation white sugar are expected to decline to 110,000 tons while imports of raw sugar are estimated to increase to 2.2 million tons.

The retail price of Indonesian plantation white sugar was relatively stable until April 2008. Due to ample supplies, the price of local plantation white sugar now stands at approximately Rp. 6,900/kg (US\$ 751/ton).

PSD: Sugar Cane for Centrifugal

PSD Table									
Country	Indonesia								
Commodity	Sugar Cane for Centrifugal						(1000 HA)(1000 MT)		
	2007 Revised			2008 Estimate			2009 Forecast		
	USDA Official	Post Est.	Post Est. New	USDA Official	Post Est.	Post Est. New	USDA Official	Post Est.	Post Est. New
Market Year Begin	05/2006			05/2007			05/2008		
Area Planted	350	350	350	350	350	350	0	0	350
Area Harvested	330	330	330	330	330	330	0	0	330
Production	25200	25200	25200	25200	25200	25300	0	0	26000
Total Supply	25200	25200	25200	25200	25200	25300	0	0	26000
Utilization for Sugar	25200	25200	25200	25200	25200	25300	0	0	26000
Utilization for Alcohol	0	0	0	0	0	0	0	0	0
Total Utilization	25200	25200	25200	25200	25200	25300	0	0	26000

PSD: Centrifugal Sugar

PSD Table									
Country	Indonesia								
Commodity	Sugar, Centrifugal						(1000 MT)		
	2007 Revised			2008 Estimate			2009 Forecast		
	USDA Official	Post Est.	Post Est. New	USDA Official	Post Est.	Post Est. New	USDA Official	Post Est.	Post Est. New
Market Year Begin	05/2006			05/2007			05/2008		
Beginning Stocks	1170	1170	1170	1390	1390	1390	1410	1410	1940
Beet Sugar Production	0	0	0	0	0	0	0	0	0
Cane Sugar Production	1900	1900	1900	1950	1950	1950	0	0	2010
Total Sugar Production	1900	1900	1900	1950	1950	1950	0	0	2010
Raw Imports	1400	1400	1400	1400	1400	1850	0	0	2200
Refined Imp. (Raw Val)	1020	1020	1020	970	970	1050	0	0	1050
Total Imports	2420	2420	2420	2370	2370	2900	0	0	3250
Total Supply	5490	5490	5490	5710	5710	6240	1410	1410	7200
Raw Exports	0	0	0	0	0	0	0	0	0
Refined Exp. (Raw Val)	0	0	0	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0	0	0	0
Human Dom. Consumption	4100	4100	4100	4300	4300	4300	0	0	4800
Other Disappearance	0	0	0	0	0	0	0	0	0
Total Use	4100	4100	4100	4300	4300	4300	0	0	4800
Ending Stocks	1390	1390	1390	1410	1410	1940	0	0	2400
Total Distribution	5490	5490	5490	5710	5710	6240	0	0	7200

Production

Indonesia produces plantation white sugar from sugar cane aimed for human direct consumption as well as refined sugar from imported raw sugar consumed by the food and beverage industry.

A total area of 350,000 hectares was planted with sugar cane in MY 2007/08, and it is forecast to remain stagnant in MY 2008/09. The competition with other crops such as rice, corn, and soybeans, and high land conversion to non-agricultural uses made it difficult to increase the amount of land dedicated to sugar cane, especially in the island of Java. Moreover, the effort to develop new sugar cane plantations outside of Java is hindered by the lack of supporting infrastructure and land ownership problems. Therefore, the only way to increase production is by growing new plant sugar cane, using higher quality varieties, and by harvesting the sugar cane after taking some samples for its recovery rate instead of harvesting based on when the cane was planted.

Despite relatively stagnant sugar cane production in MY 2007/08, the milling period was started as early as February 2007 by one state owned company in Sumatera that started the

planting season earlier than others, and finished in the beginning of December 2007. The longer milling period had resulted in a lower average of recovery rate of 7 percent compared to 7.2 percent in MY 2006/07. The average recovery rate in MY 2008/09 is expected to rebound to 7.2 percent due to the aforementioned efforts done by the sugar companies.

A total of 46 sugar mills are located in Java and account for 64 percent of Indonesian plantation white sugar production in MY 2007/08. The balance is produced by 58 sugar mills outside of Java.

There are five major sugar refineries producing refined sugar from imported raw sugar located on Java with a total installed capacity of around 2.2 million tons. In MY 2007/08 they produced a total of 1.4 million tons refined sugar, with a total running capacity of around 66 percent. It is expected that by 2009 the existing sugar refineries will run at 90 percent capacity.

Reportedly, there are 25 licenses to open new mills. Two for independent sugar mills and the rest are for integrated sugar mills which will be built next to sugar cane plantations. Currently, 5 new sugar refineries are being built in Sumatera (Lampung and Medan) and Sulawesi (Makasar) and are expected to start their operation by the end of 2008.

In MY 2007/08, the government also issued licenses for sugar mills that started and ended their milling period earlier than the others to import raw sugar to fill their idle capacity following the local harvest. This policy will continue in MY 2008/09. Indonesia is forecast to produce a total of around 2.4 million tons of refined sugar in 2009.

Consumption

Due to growing demand from the food and beverage industry, and in line with the population growth, Indonesian sugar consumption is estimated to increase to 4.8 million tons in MY 2008/09. Direct human consumption is estimated at 2.8 million tons, while the balance is used by the food and beverage industry. Indonesian per capita sugar consumption is 17 kg per year.

Prices

GOI announced intentions to change the white sugar floor price during MY 2008/09. On April 30, 2007, the Minister of Trade set the floor price of white sugar at Rp. 4,900/kg (US\$ 533/ton) at the farm level.

In the midst of wildly skyrocketing prices of almost all Indonesian basic foods such as cooking oil, poultry meat, wheat flour, and eggs, the price of sugar has been relatively stable since August 2007. The average monthly prices of white sugar at the farm level and at the retail level can be seen in the following tables:

**2007 MONTHLY FARM LEVEL WHITE SUGAR PRICES
(Rp./Kg)**

Month	Java	Out of Java	Avg. Indonesia
January	-	-	-
February	5,670	5,693	5,579
March		5,633	5,633
April		5,713	5,713
May	5,635	5,718	5,690
June	5,329	5,413	5,355
July	5,241	5,420	5,308
August	5,332	5,463	5,398
September	5,209	5,289	5,233
October	5,177	5,261	5,211
November	5,062	5,300	5,157
December	5,012	5,245	5,105

Source: Indonesian Sugar Council (DGI)

**2007 MONTHLY RETAIL WHITE SUGAR PRICES
(Rp./Kg)**

Month	Local	Imported
January	6,460	6,160
February	6,740	6,800
March	6,900	7,100
April	7,000	7,000
May	6,775	6,765
June	7,000	7,000
July	7,000	7,000
August	6,900	6,900
September	6,900	6,900
October	6,950	6,950
November	6,900	6,900
December	6,900	6,900

Source: Market Information Center (PIP)
Ministry of Industry

Stocks

Due to an increase in refined sugar production, MY 2008/09 ending stocks are estimated to go up to 2.4 million tons raw sugar equivalent compared to 1.9 million tons of raw sugar equivalent in MY 2007/08. Industry and traders reported that current sugar inventories are larger than what was held in the same period last MY since traders are reluctant to release it to the market, learning that this will further depress sugar prices on the domestic market. Indonesia is about to enter the MY 2007/08 milling season so the trend of higher ending stocks is expected to continue to the end of MY 2008/09.

Trade

As a regulated commodity, white sugar can only be imported by the four registered importers which are sugar companies that purchase plantation sugar cane from farmers to produce white sugar. Raw sugar and refined sugar can only be imported by producers that will use the raw sugar as a raw material for their production.

In January 2008, the Minister of Trade granted import licenses to Bulog and Perusahaan Perdagangan Indonesia to import 110,000 tons of white sugar to serve as buffer stock. The sugar must be imported before the beginning of the milling season in 2008 which is expected to start in April 2008. Recently, Bulog announced that it has been unable to fulfill their white sugar import allocation due to time constraints combined with the disparity between sugar price in the world market and the domestic market.

In MY 2007/08, approximately 780,000 tons raw sugar equivalent of refined sugar were imported by 92 firms in the food and beverages industry that hold import licenses. Thailand (36 percent), India (17 percent), and Malaysia (12 percent) were the main suppliers of refined sugar to Indonesia while Australia (46 percent), Thailand (29 percent), and Brazil (12 percent) were the main suppliers of raw sugar to Indonesia in MY 2007/08. Indonesia imports most of its sugar needs from Thailand not only because of the freight advantage but also because Thailand can meet Indonesian specifications based on the color (ICUMSA) level that meets the Indonesian sugar requirements called "Indospec".

Approximately 200,000 tons of raw sugar was imported in MY 2007/08 for mills idle after Indonesia production is completed. Thailand (59 percent), India (15 percent), and Argentina (13 percent) were the main suppliers of raw sugar to these mills. The same amount of raw sugar is estimated to be imported for that purpose in MY 2008/09.

Policy

In April 2007, the Minister of Trade amended sugar imports regulations, stating that white sugar with an ICUMSA ranging from 70-200 International Units may be imported when the price of white sugar is above Rp. 4,900/kg (US\$ 533/ton) at the farmer level and if the domestic production of white sugar is not sufficient to meet demand. Sugar imports are prohibited one month prior to the milling season, during the milling season, and two months after the milling season. Registered sugar importers are required to support the sugar price should the price fall below Rp. 4,900/kg (US\$ 533/ton) at the farmer level by buying farmers sugar cane production in cooperation with another party that has secured permit from local Association of Sugar Cane Farmers.

SUGAR IMPORT DUTY (ID) AND VALUE ADDED TAX (VAT)

No.	Commodity	ID		VAT (%)	Restriction
		(Rp./Kg)	(US\$/ton)		
1.	Raw sugar from sugar cane	550	60	10	NPIK, IP, SNI
2.	White sugar	790	86	10	NPIK, IT
3.	Refined sugar	790	86	10	NPIK, IT

Source: Indonesian Tariff Book 2007.

Note:

NPIK = Nomor Pengenal Importer Khusus (Specific Importer Identification Number)

SNI = Indonesian National Standard

IP = Importer Producer

IT = Registered Importer

Note: Exchange rate is Rp. 9,188/US\$ 1.